08-Aug-2018

Ford Motor Co. (F)

J.P. Morgan Auto Conference

CORPORATE PARTICIPANTS

Ryan Brinkman
Analyst, JPMorgan Securities LLC

Hau Thai-Tang
Executive VP-Product Development & Purchasing, Ford Motor Co.

MANAGEMENT DISCUSSION SECTION

Ryan Brinkman
Analyst, JPMorgan Securities LLC

Has the webcast begun? Okay, here it goes. We're going to get ready now with our next presentation. I'm Ryan Brinkman. Thanks again for joining us. We're going to start with Hau Thai-Tang, Executive Vice President for Product Development, Supply Chain, and Purchasing, a lot of hats at Ford Motor Company. Hau, thank you so much for coming to the conference.

Hau Thai-Tang
Executive VP-Product Development & Purchasing, Ford Motor Co.

Thank you, Ryan. Good afternoon, everyone. I really appreciate the opportunity to be here today and really very proud and honored to represent the men and women of Ford Motor Company.

What we want to do today is really give you an update on the Ford story and tell you a little bit about how we're working every single day to create value for all of our shareholders.

Can we go to the next slide please. Okay. Many of you guys are very familiar with this. This is our value creation framework. And it really distills on one single slide how we think about the business and what we're doing in terms of strategic choices that would grow value and build value for all of our shareholders.

It starts with our belief as a company, which is the freedom of movement drives progress for human. It also distills our winning aspiration, which is to become the world's most trusted mobility company and designing vehicles that are smart. And they operate in a smart environment, a smart world if you will.

The next section really articulates our plan. These are the choices that we're making in terms of capital allocation on where to play and how to win. And it's really underpinned by our passion for the products, the expertise that we've developed over the last 115 years, combined with our understanding of customers. Not only their spoken wants, but also getting at their underlying unmet needs.

Today, what I'd like to do is really focus on two elements of this plan. The first one is tell you a little bit more about some of the choices we've made around a winning portfolio, where we want to play, and how we plan to win.

And then the work that we're doing simultaneously across all of our operations to really improve our fitness. And we do this not only to fund some of these strategic choices, but also to improve the health of our business, to improve our robustness for the cyclical nature of our business, but also to improve every element of our business.

We'll go through that. And obviously our people, the culture, and the values in the company are really important as we deliver this.

Okay. I want to start with this, in terms of talking about some of the strategic choices. And it shows you a snapshot of our business in terms of our actuals in 2017. Return on invested capital in the vertical axis, our EBIT margin on the horizontal axis.

And you can see by this graphic that we have a bimodal distribution. We have some really strong performing vehicle lines in our business that deliver more than 150% of our profitability. You can see there in 2017 this was actually $14.5 billion of profit.

If you look at these vehicle lines on average they're returning 40% on return on invested capital and about 16% EBIT margin.

On the opposite spectrum, we have some areas – segments as well as geographic areas of our business that are not performing. They're losing money. They're not returning the cost of capital. And we're working very hard to address these underperforming areas.

And then in the middle you'll have the yellow areas. We have some small elements of our business, some vehicle lines that are profitable, but they're just not meeting our return on invested capital threshold.

And then the gray box is just really the money that we're allocating on new products that have not come to market yet.

So in terms of having a very disciplined capital allocation process, what's fundamentally different than how we've approached this in the past?

Well, first and foremost is the way we're organized. Having Jim Farley as a single point of view owner for the global markets and having him really aggregate and prioritize and help us understand where the market opportunities are, where consumer sentiments are headed in terms of purchase behaviors, and then identifying areas where we want to play.

Then we work in a collaborative manner to really identify potential opportunities and how we can win. And what we've done is we've identified these strategic choices.

And then another new element for us is actually assigning a risk to them, a risk factor. So we do the risk in terms of the country premium for those particular strategic choices that we're considering. We also look at our historical performance in that particular segment. And then we also do a segmentation risk based on the consumer trends that we're seeing.

And based on that weighted risk, we come up with a weighted cost of capital. And then we have to actually meet that threshold or else we don't allocate money there.

So let me show you how this looks. And maybe the best way to show this is to show you how our cycle planning – product cycle planning capital allocation has changed.

If you look at this chart starting with 2015, so a mere three years ago over a five-year business plan period, this was the breakdown of our capital allocation. You can see the money that we allocated towards utilities and cars

was almost the same, 39% and 37%. We actually allocated less money towards our very profitable pickup truck business.

And then you can look at the plan in 2018 and how fundamentally the shift has changed. This is a global view, by the way. 90%, almost 90% of our capital is allocated towards utilities and trucks, areas where we dominate not only in terms of market share, but also pricing premium. And then we've shrunk our car capital allocation down to 11%. So utilities as an example, six times the allocation of capital.

Okay. If you go to the next slide, one of the critical lens that we look through is, what are our customers telling us? This is the insight and really the value of that global markets team. Jim is a fantastic – Jim Farley really has a natural instinct for understanding customers and what's happening in the marketplace.

So he's looking out at the competitive landscape, looking across all of the geography, but most importantly, listening to our customers. And then helping us identify where we should play. And you can see some of these macro trends. We think they really line up with Ford's strengths.

So we know our customers value utility, the flexibility and the utility of their products. They want efficient solutions, efficiency in terms of propulsion but also efficiencies in terms of eliminating the friction in terms of dealing with mobility solutions. They want to be connected. And obviously they want the products to be affordable. And this is really what underpins our smart vehicles and a smart world thinking.

So once we've identified the segments and the geographies where we want to play, we really want to convince ourselves that we have a license to win. And Ford, if you look at where we're strong, it's all about work, adventure, performance, and then bringing people together.

In terms of work, it's our Built Ford Tough truck positioning. Our pickup trucks are all about power, payload, and productivity. We really want to harness and build on that.

Our utilities, it's all about giving people the ability to go anywhere, do anything. This idea of being unstoppable that's embodied by the Explorer. We want to capture that.

Performance, it's iconic products like the Mustang, which by the way today we just built our 10 millionth vehicle, 54 years in the marketplace, the world's bestselling sports car. But it embodies what Ford performance is all about, this bold, emotive, visceral reaction that you get from just looking at the product.

And then something that's common to all Ford product, common to our core, to our brand is bringing people together. So this idea of human connection.

So we look at where the market opportunities are. We combine that with where we're strong. And we want to do that in a way that delivers bold, emotive, aspirational product with a really fresh cadence.

So if you look at this chart, on the left hand side it really shows you the value of our fitness, how we're reallocating capital to bring out products much faster. Today, we have one of the oldest product showrooms in the industry. By 2020, in two more years, we think we'll be best-in-class.

So this is a U.S. look. But if I showed you this data across all markets where we compete, it's going to be a very similar story. So 3.3 years average age of portfolio. You can see some of our other competitors there. We think we will have the freshest lineup.

On the right hand side, this is just another way to show you the shift in terms of capital allocation. And I just want to use the opportunity to say that this is not a retrenchment. It's really redeploying capital in areas where we can win, doing new incremental products that don't exist today in our showroom. And it's a way of us conquesting new customers.

All right. Let's pivot and talk a little bit about how we are going to fund this. And then what are we doing to address some of the underperforming areas of our product portfolio. And we've coined this fitness, and I really love the term fitness. We were just talking to Ryan about his fitness regimen.

But it's this idea of continuous improvement. What are you doing every single day to get better? It's not a one-time deal. So while we've monetized this, this is a point in time snapshot. Look, it's something that we're working on. And it's something that Jim Hackett has really encouraged us to think about it in that mindset.

So I want to just help bring this together for you because we actually shared with you a couple of data points. In October of 2017, we told you that we were working on some fitness actions. We called it at the time fitness reset, that was about $14 billion.

And in the Q1 earnings call earlier this year, we also dimensioned another $11.5 billion of fitness related savings. So what this is, is an improvement versus our plan of record at the time. So over the next five years, if you will, the cumulative effect is $25.5 billion of cost efficiency versus our previous plan of record.

One way to think about this, this is equivalent to about a 3% average annual improvement of our cost basis over the next five years. So that's essentially the run rate of efficiency that we're aiming to deliver.

Today, I'm going to cover about 80% of the savings, given my areas of responsibility. So I'll talk about the $12 billion of material cost, the $7 billion of fitness related actions tied to product development and engineering efficiency, and then of that manufacturing about $1 billion of that is enabled by the work that we're doing around our engineering and efficiency. So we'll touch on that as well.

So this is a summary of the product related items. You can see $7 billion of engineering. This is all about shifting from the traditional platform and top hat concept to thinking about global modular architectures and in a modular catalog. And I'll talk more about that.

In addition to saving money and engineering efficiency, we also want to get to market faster. So on average we will deliver a 20% improvement in terms of time to market from the product definition to mass production.

I referenced the $1 billion of capital savings through manufacturing. This is a reflection of our complexity reduction and the shift to the modular architecture. And then $12 billion of material cost. This is a combination of design efficiencies, complexity reduction, plus improved commercial performance with our procurement function. And we'll touch on these in a second in more detail.

So let's talk about the product development or the product creation process. It starts clearly with customers, understanding as I stated earlier, not only their spoken wants but also getting at their underlying unmet needs, combining that with advances in technology.

The upper swim lane is really all about how we bring new products to market in terms of specific to our vehicle timeline. It starts with this co-creation process, working with Jim Farley and his team, identifying the areas where

we think we want to play in and coming up with different alternatives, strategic choices for us to consider, assigning the risk associated with them, testing them, prototyping them. And then once we lock and load and validate the product definition, we want to go to market as fast as we can. And we call this hardware at the speed of software. Really, this idea of agile development.

In addition to that, in parallel to that, outside the context of the vehicle programs that are in flight, we're working on modular architecture. So these are systems and combinations of commodities that we want to share across architectures and within an architecture. And we think, there's roughly 70% of value that we can share across our product lineup.

And by doing these two things in combination, we anticipate that we're going to improve our engineering efficiency anywhere between 20% to 40%. We're going to increase our product output. This is one of the enablers of that fresher product cycle. Faster time to market as I mentioned, about a 20% reduction. Obviously, lower investment cost, lower engineering, and then lower labor cost as well.

Part of this is really trying to find the sweet spot in this challenge that every single manufacturer faces, which is how do you satisfy the customers' thirst for differentiation and diversity. And at the same time, optimize and maximize commonality within your company, within the back side of the operations as you will.

So if you look at this chart, pre-One Ford we had a lot of redundancy. We had multiple products that were engineered separately across different regions, essentially occupying the same space in our showroom in terms of market positioning. Very wasteful. We had very little sharing within Ford. It wasn't very investment efficient.

But worse yet, it wasn't very efficient for our supplier partners in terms of allowing them to maximize their scale. And as a result, while we had a lot of diversity, we didn't have a lot scale savings.

Under One Ford, we made tremendous progress in terms of reducing that complexity, going from eight brands down to two, 30 global platforms down to nine.

But sometimes that came at the expense of delivering the customer differentiation that our customers expected, especially in some of the growth markets around the world.

So we believe with advances in flexible manufacturing technology, some of the investments that we've made in our plants to be flexible, and the shift from thinking about traditional platforms and top hats to flexible architectures that we can build in these flexible manufacturing sites, and high reuse of these common modules, we can actually deliver both the customer differentiation and diversity that our markets demand across all the divergent markets where we operate, and at the same time really have high levels of reuse and scale savings.

So this is not saying that One Ford was wrong. It's actually building on the strategy of One Ford and really evolving from it.

I had a chance to work in Europe. Over my 30-year career, I've had a chance to work in South America. I was in Europe when we tried to globalize Ford initially with Ford 2000. I was in South America when we really deployed One Ford. And I've tried to really take those personal learnings and used it to form this strategy of how we want to think about this. So I'll just share with you some of those thoughts.

The first column is really what did we do? What were some of our achievements under One Ford? I mentioned this threefold reduction in platform complexity going, from 30 down to nine. It clearly gave us a lot of engineering

and investment efficiency. It gave us global scale. But that global scale didn't always translate into regional and local market scale.

And I'll give you one classic example. We're very proud of our Focus that comes – it's underpinned on our C1 platform. We sold during One Ford about 2 million Focus – [ph] Focis (17:00) around the world. And in the large markets like [ph] Sar Louie (17:05) in Europe, in Michigan assembly plant we had a lot of scale, over 200,000. And typically for most commodities you can allow your suppliers to operate with really high levels of utilization.

But if you go into Russia, you go into ASEAN and Thailand, if you go into Pacheco in Argentina, where we also built the same Focus, our volumes were 60,000, 40,000, and in some cases 30,000.

And when you're sourcing to those local suppliers at those volumes, it's very difficult for them to see any scale benefits. And obviously it also limits your ability, if you don't get the right cost structure and scale savings, to deliver the affordability that customers want.

So by moving to the flexible architectures with modules, we think we could cover the same market requirements around the world with only five architectures. We think obviously we'll deliver much more engineering and investment efficiencies as we go from nine to five.

But we'll also be able to enable this local regional scale, which is critical for our supplier partners to operate efficiently. And by doing that we'll get the right cost structure, the right price point in terms of affordability. We'll have the ability to tailor the products to meet our customers' willingness to pay. And obviously deliver on the material cost savings and supply base efficiencies.

So how did we do that? How do you go from nine to five? Well, again, we start with the customers, trying to understand their requirements. The regulatory environment is also a key contributor. And then three key differentiators for us in terms of how we think about architecture is the energy. Is it a combustion engine or is it an electric vehicle? The drive system. Is it all-wheel drive, front wheel drive, rear wheel drive? And then the body architecture. Is it a unitized body construction? Or is it body on frame?

These architectural differentiators really impacted the bill of design, as well as the manufacturing bill of process.

So we think we can satisfy all of those requirements with five flexible architectures. So a rear wheel drive body on frame architecture, so think about our trucks and large utilities; a unitized front wheel drive architecture; a commercial vehicle, a commercial van unitized body architecture; a rear wheel drive unitized body architecture; and then one that's strictly for battery electric vehicle only.

I mentioned that we believe we can satisfy all of the markets where we are currently doing business today, as well as the different price bands with these five architectures. So this chart really tries to articulate that. Don't over read into the vehicle silhouettes. I don't want you to look at that second row and say that I heard Hau say, Ford is going to do a [ph] Prius fighter (19:53), we just put some generic graphics.

But just to demonstrate to you the silhouettes. One thing I'll point out is by doing this, we've made a decision around some of our underperforming products in the North America market. We plan to replenish them with products, different silhouettes, using this front wheel drive unitized body architecture in the affordable price band, because we recognize how important it is to capture those entry customers and again to grow our market performance.

We also recognized in our learnings from One Ford that there will be emerging markets where the customers' willingness to pay is at a price band that we can't satisfy with these five global architectures. In those cases and again consistent with the spirit of One Ford, which is all about harnessing and leveraging our global assets, we want to tap into our JV partners and potentially some of our alliances to go after that.

So I'm going to give you one example of where we're doing that. This is news that actually we share today. What you're looking at here is a new product we plan to launch in China called the Ford Territory. It's a new incremental utility into the marketplace.

Why this is so important? The Chinese market is growing. Most of the growth is happening in tier 4, 5, and 6 cities for a couple reasons. That's where we're seeing the greatest growth in terms of consumer disposable income. Many of the larger tier 1 and 2 and 3 cities are also having a lot of congestion issues. There's license plate restrictions, which will naturally throttle the growth.

So the growth that's happening in those emerging cities, young families, they really want the flexibility of a utility, but their willingness to pay is at a price point that we can't adequately satisfy with our global products today.

So you've also heard us talk about the need to really understand the Chinese customers, what it is that they want. The answer was right in front of us. We have fantastic, very strong joint venture partners, who understand the marketplace very well. They're highly cost efficient. They're very investment efficient. They have access to a local Chinese supply base. They're not global suppliers who are localized in China. And they're very agile.

So just a dimension in what this product is, it's a product that uses a JMC [Jiangling Motors Corp.] architecture if you will, combined with Ford design and Ford technology and Ford DNA. Clearly, it's a Ford outside as well as inside.

We're bringing in technology such as Co-Pilot360, driver assisted technology, it'll have FordPass. And we were able to do this from a program approval to mass production in less than 12 months. We came up with the ideation and then the program was approved in about five months. Just shows you the speed.

The investment is at a fraction of what it would take us to do this starting from scratch. And it's obviously going to be at the right price. It's going to be profitable. And it exceeds our return on invested capital targets. So just an example of how we want to work going forward.

Let's talk a little bit now around these modules. And I wanted – with this chart, we're deep diving the front-wheel drive, all-wheel drive unitized body architecture. I want to just reinforce that this is not something we're thinking about, it's something we're already doing.

So our C2 front-wheel drive architecture that replaces the C1, we're launching products off of it today with the new Focus that we've just launched.

So if you look at this graphic. Today's C1 platform essentially covers the Focus, Escape, up to the Transit Connect. By going to this flexible architecture, we actually think we can cover more market bandwidth.

So we have a future product that we haven't announced the details on yet, but it's an incremental utility. It's a differentiated utility than the Escape. So again this theme of going after new customers, conquesting customers, growing our market share in an area that we think we will do really well. It's going to have off road positioning and

imagery. And it's going to allow us to command really high pricing premiums. So this new architecture allows us to increase the bandwidth.

But beyond the architecture, we believe that we can share modules and components within that C2 flexible architecture, but as well across the architecture. So within the architecture, it would be things like the suspension system or the cross car beam. So every C2 product will have the same system.

But across architecture, going into rear-wheel drive, going into unitized body, going into commercial vehicle, even with the battery electric vehicles, we have the opportunity to share things like center displays, the human/machine interface, seat systems. So these components make up a lot more of the value.

So one way to show you this is on the left hand side if you look at this graphic, this is the way historically many OEMs have thought about the business. Share the platform, change the top hat.

Now we believe we can get all these different silhouettes, but share these modules across the architectures. By doing that, we take the potential for commonality and savings in the old platform top hat world of only about 30%. You see that section that's called architecture specific modules, the suspension underbody that we typically shared. If you add in now the things that we can share across architecture, you can take that commonality from 30% to 70%.

So think about what that means in terms of efficiencies for engineering in terms of capital investment with a supply base in terms of vendor tooling, but then the scale enabled savings in terms of material costs.

The 30% remaining will be things that we would differentiate intentionally to make our products look different to the customers to give them the diversity that they want.

I want to show you an illustration of this. And I also want to build on this theme of going faster than market. I coined this term, hardware at the speed of software. And I want to show you how we're using this modular architecture concept on a new infotainment system that we're delivering that really captures the spirit of this smart vehicle in a smart world.

We actually put an agile team together of designers, engineers, and software programmers. We called it Team Menlo, though it's a play on Team Edison, as you guys know, Menlo with Thomas Edison's lab. And let me show you a teaser of what they're working on.

[Video Presentation] (26:34-27:21)

Okay, so agile teams, cross-functional design thinking, methodologies, and delivering something that will work across different screen sizes, different orientations, and across different markets.

The last thing I want to just touch on is around material cost, $12 billion in reductions, enabled by reducing complexity, the modular architecture and the scale savings. Market alignment, going around all of our markets, rationalizing the content based on the customers' willingness to pay. And then a lot of benchmarking, not only with our competitors, engaging our suppliers much earlier in the process, but also cross industry benchmarking, especially around electronics, where we're uncovering 20% to 30% cost opportunities that will support this $12 billion.

Okay. So just in summary, we're working very hard to deliver not only a fresh product portfolio and reallocating capital in terms of areas where we want to play and win. We're also doing that simultaneously, while we improve our fitness to deliver these cost savings that you see here.

So I'll stop there. I know we want to have some time for Q&A.

QUESTION AND ANSWER SECTION

Ryan Brinkman
Analyst, JPMorgan Securities LLC

Q

Great. Thanks, Hau. I'll ask a couple to start, really all centered around where to play. So an increasing theme I think on the recent earnings calls is that there really is this very profitable Ford Motor Company hiding within the larger whole. Right?

So can you talk a little bit about – because I think that in your role, you look at vehicle and product segment profitability and have a grasp of that. Whereas on the outside of the company, we can only see the regional stack up. Right?

So we all understand the F-Series, this big profit pillar. What are the other parts of the company that are earning a sufficient return? And then of the areas that aren't earning a sufficient return, how do you go about deciding, is it fixable? Or is there a structural headwind here, time to get out, like pass cars in North America?

Hau Thai-Tang
Executive VP-Product Development & Purchasing, Ford Motor Co.

A

Yeah. Great question, Ryan. So obviously F-Series is one of our profit pillars. Commercial vehicle is another area of strength that includes obviously our transit franchise, but in many markets we lump Ranger in with that.

Utilities, we have a fantastic proof point with our large utilities that we introduce. Our market share is up. We're getting fantastic pricing with the Expedition and Navigator.

So really what we're trying to do is reinvest and allocate capital in those areas. And offer more differentiated products, whether that's incremental new products, like the example I shared with you around this new utility, or in some cases derivatives. So you've seen us in Europe do things like ST-Line, the Active line. We've done that primarily in our car product, Focus, Fiesta. Imagine if we did the same approach on some of those more profitable franchises, the opportunity that's in front of us.

In terms of looking at the underperforming areas of our business, it's really going back to what are the customers looking – willing to pay for? Does it fit in with where Ford – we think Ford is strong? And can we – do we have a chance of differentiating ourselves? And then if we add in and work in the profit – or the fitness improvements, do we see a way to profitability? And does it meet the return on invested capital?

Ryan Brinkman
Analyst, JPMorgan Securities LLC

Q

And then I wanted to ask too on China, because you've been very upfront as an organization that got some structural problems in South America that – going to require some out-of-the-box structural solutions. Even in Europe, which had started to turn around post-Brexit, you've been acknowledging there's some structural issues

we need to address as well. China's had a big reversal in profitability. And yet just a couple years ago you were wildly profitable, even – a much higher margin even than GM.

So can you talk about the degree to which that's structural? Or more cyclical around – I imagine it's a temporary thing. And then the big product onslaught. You mentioned the Territory. What else have you got coming in China? And is the profitability going to turn around with these new models?

Hau Thai-Tang
Executive VP-Product Development & Purchasing, Ford Motor Co.

A

Yeah, we believe so. The Chinese market is I think hypercompetitive. You have a lot of great global players there – are there. And then you have some really strong indigenous players.

It's a market that's very dynamic in terms of product freshness. I think of all markets where we operate, the need to have a fresh product is very acute there. So clearly, we've suffered from some of those decisions we made previously, and we're paying the price for it.

But as you mentioned, we have a lot of great products coming online, starting with we're launching the Focus coming up. So that's a really critical and important launch for us. We have EcoSport. And then we're going to be following on with new Ford as well as Lincoln products in the right segments where we want to compete, so the utility products, the product that I just showed here. We have a really strong Lincoln lineup that's going to be coming to market as well.

And then we're working to localize many of those products there, which will also improve our profitability for that market.

Ryan Brinkman
Analyst, JPMorgan Securities LLC

Q

Okay. And then last question from me, just on Ford Autonomous Vehicles LLC. Can you talk about what was the strategy that led to the formation of that entity? And what are the roles now for what was called, and I think it still called, Argo AI and then Ford Smart Mobility? How do they fold up into that?

Hau Thai-Tang
Executive VP-Product Development & Purchasing, Ford Motor Co.

A

Yeah, I think, you're seeing what it is. It's a confluence of a couple of things. It really – for me, it signals our intention to shift from kind of a research development phase to a go-to-market phase.

And to do that, we want to create an end-to-end holistic business ownership structure with the LLC. We've signaled that we're going to target – our first city is Miami. So we're just moving away from just developing the technology and thinking about the business.

In addition to working on the autonomous driving technology, which is a very critical element, we're also building the right competency. So if you think about our Ford customer, a commercial services business that's looking at things like fleet management, dynamic route planning, how do we do mobile payments?

Those are all of the competencies that you need to be – have a successful [ph] AV and B2B (33:33) business. So bringing all those bits together, creating the autonomy for the team, the independence.

And we're also receiving overtures from other people who are interested in potentially investing in the business. So by creating an LLC, it also facilitates that.

So I think it's just a natural progression of us moving from an R&D phase and building the competency to a go-to-market phase.

Ryan Brinkman
Analyst, JPMorgan Securities LLC

Q

It's an interesting comment about the interest, the inbound interest you've received there. Other questions in the audience?

If no one in the audience has a question, I would just ask you about this late breaking development relative to the Corporate Average Fuel Economy standards in the U.S. What are your thoughts on that?

Hau Thai-Tang
Executive VP-Product Development & Purchasing, Ford Motor Co.

A

Well, one of – the question came up earlier on. So it's early days yet. It has – nothing has been finalized.

But I think we believe that fuel efficiency, going back to the slide that I showed you about the customer insights on efficiency and affordability, it's an important customer driver. We think of climate change as a real issue that we have to play a part in, in part of the solution.

We're committed to the Paris Accord (sic) [Agreement] (34:40) and the 2-degree stabilization. And we clearly operate in global markets, so we want to work together. We want to make sure that this solution is harmonized.

What we don't want to see is a divergence across states because that makes it more complex for us. And then obviously we're still committed to delivering fuel efficient vehicles, because we think fundamentally it's what customers want. And it addresses an important societal problem.

Ryan Brinkman
Analyst, JPMorgan Securities LLC

Q

Okay. And then just very last question on the passenger car transition in North America. First of all, what gives you the confidence that they're not coming back?

And then secondly, you've talked about you're not eliminating vehicles from the lineup, the number of vehicles. You're not closing plants. So what's going to kind of backfill? Yeah.

Hau Thai-Tang
Executive VP-Product Development & Purchasing, Ford Motor Co.

A

Yeah. So we think it's a secular shift, so that it's a permanent shift. Customers love the utility, the higher riding position.

And if you look at where Ford is strong, what we want to target, bold, emotive designs. People are buying because of emotional reasons.

The people that are remaining in the traditional passenger car, sedan segment in the U.S. are primarily buying because of rational needs, transaction price, cost of ownership, resale value, fuel efficiency. Those are areas that

some of our competitors dominate. It's going to be very difficult for us to conquest customers. We recognize that. And we want to reprioritize capital into products in the same price span using those flexible architectures that really resonate with our customers.

And it's consistent with our Ford brand, delivering this utility, human connection, bold, emotive design. So that's essentially our thinking. And it's paying itself out. You can see some great products in that segment. Volume is down, huge variable marketing, average age on the lots growing. And we think it really supports the decision we made.

Ryan Brinkman

Analyst, JPMorgan Securities LLC

Great. Very interesting. Please everyone join me in thanking Hau for his time today.